

ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF SOUTHERN INDIANA GAS AND)
ELECTRIC COMPANY d/b/a VECTREN ENERGY)
DELIVERY OF INDIANA, INC. FOR APPROVAL OF)
AN ADJUSTMENT TO ITS RATES THROUGH ITS)
PIPELINE SAFETY ADJUSTMENT PREVIOUSLY)
APPROVED IN THE COMMISSION'S ORDERS IN)
CAUSE NOS. 42596 AND 43112)

CAUSE NO. 43384

APPROVED:

MAR 12 2008

BY THE COMMISSION:

Larry S. Landis, Commissioner

William G. Divine, Administrative Law Judge

On November 9, 2007, Southern Indiana Gas and Electric Company d/b/a Vectren Energy Delivery of Indiana, Inc. ("Petitioner") filed its Petition in this Cause for approval of adjustments to its rates through its Pipeline Safety Adjustment ("PSA") as approved by the Commission's Orders in Cause No. 42596, dated June 30, 2004 ("2004 Rate Order") and Cause No. 43112, dated August 1, 2007 ("2007 Rate Order"). On February 7, 2008, the Indiana Office of the Utility Consumer Counselor ("OUCC") filed a Notice of Intent Not to Prefile Testimony.

Pursuant to the Prehearing Conference on December 14, 2007, the Prehearing Conference Order dated January 4, 2008, and notice of hearing given as provided by law, proof of which was incorporated into the record and placed in the official files of the Commission, a public hearing in this Cause was held on March 4, 2008, at 9:30 A.M., EST, in Hearing Room 222 of the National City Center, 101 West Washington Street, Indianapolis, Indiana. At the Evidentiary Hearing, the prepared testimony and exhibits of Petitioner's Witnesses Scott E. Albertson (Petitioner's Exhibits SEA-1 through SEA-4) and James M. Francis (Petitioner's Exhibits JMF-1 through JMF-4) were admitted into the record. The OUCC participated in the Evidentiary Hearing, but did not present any witnesses.

Based upon the applicable law and the evidence herein, the Commission now finds:

1. **Notice and Jurisdiction.** Due, legal and timely notice of the hearing in this Cause was given as required by law. Petitioner published notice of the filing of its Petition in newspapers of general circulation in each county in which Petitioner has retail gas customers. Petitioner is a "public utility" as defined in Ind. Code § 8-1-2-1(a) and is subject to the jurisdiction of this Commission in the manner and to the extent provided by Indiana law. The Commission has jurisdiction over Petitioner and the subject matter of this Cause.

2. **Petitioner's Characteristics.** Petitioner is a public utility incorporated under the laws of the State of Indiana, with its principal office and place of business in the City of Evansville, Indiana. Petitioner provides electric and gas utility service to the public in Indiana and owns, operates, manages and controls plant and equipment used to provide such service.

3. **Petitioner's PSA.** The 2004 Rate Order approved a Stipulation and Settlement Agreement ("2004 Settlement") between Petitioner and the OUCC which, among other things, authorized Petitioner to implement the PSA to recover on a timely basis prudently incurred, incremental non-capital expenses ("Eligible Costs") caused by the requirements of the federal Pipeline Safety Improvement Act of 2002 (the "Act") and the regulations of the United States Department of Transportation ("DOT Rules") adopted thereunder. The Act imposes many new requirements on pipeline operators with the intent of enhancing pipeline and public safety, including annual submission of transmission pipeline maps to the National Pipeline Mapping System, public education programs, pipeline integrity assessments and a pipeline integrity management program.

The 2004 Settlement provided that Petitioner may defer Eligible Costs beginning as of March 26, 2004. On May 10, 2005, Petitioner filed its petition in Cause No. 42855 requesting approval of its first adjustment under the PSA to recover over a twelve-month period Eligible Costs deferred during the period of March 26, 2004 through March 31, 2005. The Commission approved the first adjustment in its Order dated October 12, 2005.

The 2007 Rate Order approved a Stipulation and Settlement Agreement ("2007 Settlement") resolving Petitioner's request for approval of an increase in its gas rates and charges. The 2007 Settlement provided that Petitioner be authorized to continue to recover incremental expenses caused by the Act, through the PSA, subject to the following modifications:

- (a) Deferred expenses eligible for inclusion in each annual PSA filing will be capped at one million dollars (\$1.0 million).
- (b) Incremental deferred expenses above the \$1.0 million annual cap may be included in subsequent annual PSA filings, without carrying costs, up to the amount of the annual cap. Amounts above the cap will be deferred and be eligible for future rate case or PSA recovery.
- (c) Any deferred balance existing at March 31, 2007 will be amortized over a 3-year period within the PSA, without carrying costs. This amortized amount will be considered incremental to the \$1.0 million annual cap (i.e. the amortized amount does not count toward expenses that are deferred in each 12-month period that may be recovered under the cap). The amortized amount will be removed from the PSA at the end of the 3-year period.
- (d) In each annual PSA filing, recoveries will be reconciled with recoverable costs. Recovery variances will be included in subsequent annual PSA filings. Such variances will also be considered incremental to the \$1.0 million annual cap (i.e. variances do not count toward expenses that may be recovered under the cap).
- (e) Rate schedule margins as updated in Cause No. 43112 shall be used as the basis for allocating eligible deferred expenses in future annual PSA filings.
- (f) The PSA will continue through the annual PSA filing for the twelve months ended March 31, 2010. At that time, the parties will review the PSA to consider the appropriateness of the annual cap, whether the PSA should continue, whether

expenses have levelized sufficiently to be included in base rates, and any other related matters.

4. **Petitioner's Request.** In this proceeding, Petitioner seeks approval of a revised PSA to recover (a) over a 12-month period the actual incremental costs deferred between April 1, 2006 and March 31, 2007, which amount is capped at \$1.0 million; (b) over a 3-year period the remaining March 31, 2007 deferred balance; and (c) over a 12-month period an under recovery variance relating to the period of October 13, 2005 (the date the initial adjustment was implemented pursuant to the Order in Cause No. 42855) through March 31, 2007.

The total costs which Petitioner seeks to recover in this proceeding are \$1,041,043. This amount reflects the actual incremental costs of \$633,936, plus \$235,795 to reflect the three (3) year amortization of the remaining deferred balance at March 31, 2007, plus \$171,312 to reflect the under recovery from Cause No. 42855.

5. **Eligible Costs.** James M. Francis, Director of Engineering and Asset Management for Vectren Utility Holdings, Inc., described the activities Petitioner has undertaken under its Integrity Management Program ("Program") during the period of April 1, 2005 through March 31, 2007. Mr. Francis stated that total incremental Program expenses for Petitioner during the period from April 1, 2005 through March 31, 2006 amounted to \$1,195,765. Mr. Francis said that the total incremental Program expenses during the period from April 1, 2006 through March 31, 2007 amounted to \$633,936.

Mr. Francis described the Program activities completed by Petitioner to comply with the Act. He stated that Petitioner continues to pursue improvement and integration of its data into its Risk Assessment Model and Petitioner has completed extensive data collection which allowed Petitioner to further refine its high consequence areas ("HCAs"). Petitioner also updated its Integrity Management Plan to support continuous improvement expectations and to provide an additional level of detail expected by the federal Pipeline and Hazardous Materials Safety Administration ("PHMSA") and the IURC Pipeline Safety Division. Mr. Francis stated the majority of the activities completed by Petitioner related to field activities, including: The maintenance of Petitioner's rights-of-way along the pipelines in HCAs; direct assessment corrosion surveys; corresponding direct examination excavations; pipe casing removals; and pipeline centerline and depth surveys. Mr. Francis also noted that Petitioner has completed its Public Awareness requirements, provided an update to the National Pipeline Mapping System and provided training to employees responsible for carrying out various Program tasks.

Mr. Francis also discussed the audit of Petitioner's Program, which was conducted by the PHMSA and the IURC's Pipeline Safety Division in May 2006. He stated the Audit Report correctly noted that Petitioner's initial focus was on completing assessments of HCA pipeline segments and that those assessments as well as other work performed pursuant to the Program have been useful and necessary. Mr. Francis testified that the Audit Report identified several areas for improvement and suggested that Petitioner increase the number of personnel devoted to the Program. Mr. Francis explained that eight additional employees have been added to implement the Program and that Petitioner uses contract employees to supplement staffing needs. Mr. Francis stated that during the period between April 1, 2006 and March 31, 2007, Petitioner completed most of the outstanding items identified in the Audit Report, and the remaining items were subsequently completed.

Mr. Francis also discussed the Notice of Amendment and the preliminary Notice of Probable Violation which were issued to Petitioner by the PHMSA. He stated the Notice of Amendment addressed specific areas of Petitioner's integrity management procedures that required modification. The Notice requested that Petitioner add greater detail to its procedures to (1) ensure standards and requirements are being followed, (2) identify personnel responsible for each process, and (3) include pertinent details for each procedure. Mr. Francis testified that Petitioner submitted the modifications to PHMSA and the IURC on March 31, 2007. He said Petitioner's pre-audit procedures were not very different from those of other utilities and that the DOT Rules anticipate the original Program framework will evolve over time into a more detailed and comprehensive program.

Mr. Francis described an Inspection Report issued by the IURC and Petitioner's response requirements which included providing monthly progress updates and follow-up inspections. Mr. Francis also described Petitioner's response to the Notice of Probable Violation and the Proposed Compliance Order which summarized non-procedural findings of the audit and outlined actions to be taken by Petitioner. He stated Petitioner has requested clarification of certain terms in both documents and the PHMSA is finalizing the order. Mr. Francis acknowledged that Petitioner expects PHMSA to require additional reporting.

Mr. Francis testified that the Program expenses from April 1, 2006 through March 31, 2007 include the cost of addressing the audit findings and that the costs were reasonable and necessary to ensure compliance with the Act. Mr. Francis further testified that all of the activities required by the Act and DOT Rules represent incremental work, and that labor expenses being recovered through base rates have been excluded from the amounts for which Petitioner seeks cost recovery in its PSA.

Mr. Francis testified that Petitioner anticipates a new PHMSA rule requiring a Distribution Integrity Management Program ("DIMP") will be in place in 2008 and that operators will be given 12-18 months to develop and implement a DIMP plan. Accordingly, Petitioner expects to begin evaluating its distribution systems, data, processes and procedures in early 2008. Mr. Francis stated that the DIMP rule would result in additional O&M activities and capital investments to improve the integrity of its distribution infrastructure. Mr. Francis explained that Petitioner would keep the Commission and the OUCC apprised of the progress of this new program.

6. **Derivation of PSA.** Scott E. Albertson, Director of Regulatory Affairs for Vectren Utility Holdings, Inc., testified regarding the derivation of Petitioner's proposed adjustments for the various rate schedules. In accordance with the 2007 Rate Order and 2007 Settlement, Petitioner allocated the Eligible Costs to customer classes based on the rate schedule margins as updated in Cause No. 43112. The costs per Rate Schedule were divided by the billing quantities by Rate Schedule used in Petitioner's 2008 budget to determine the volumetric rate applicable to each Rate Schedule. The rates were grossed-up for Indiana Utility Receipts Tax. Petitioner's Exhibit SEA-4 shows the derivation of the proposed PSA factor for each customer class.

7. **Tariff Sheet.** Petitioner's Exhibit SEA-3 contains Petitioner's proposed Pipeline Safety Adjustment tariff sheet, First Revised Sheet No. 37, reflecting the proposed PSA factors. The following table summarizes the PSA factor for each rate class:

Rate Schedule	Adjustment
110	\$.0102 / therm
120/125/129/145	\$.0048 / therm
160	\$.0014 / therm
170	\$.0003 / therm

8. **OUC Position.** In its Notice of Intent Not to Prefile Testimony, the OUC stated that it reviewed Petitioner's filing, conducted discovery, cross-checked Petitioner's exhibits and calculations and verified Petitioner's exhibits. Based on its review, the OUC said the costs and the tracker rate derivation appear correct and reasonable and in compliance with the 2007 Settlement.

9. **Approval of PSA.** The Commission finds that the proposed PSA is properly calculated in accordance with the 2007 Rate Order and the 2007 Settlement and should be approved. Petitioner should be authorized to put in effect the PSA factors contained in Petitioner's Exhibit SEA-3.

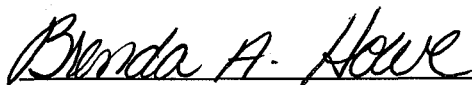
IT IS THEREFORE ORDERED BY THE INDIANA UTILITY REGULATORY COMMISSION THAT:

1. Petitioner's proposed PSA factors as set out in this Order shall be and the same are hereby approved.
2. Prior to putting the PSA factors in effect, Petitioner shall file with the Natural Gas Division of the Commission an amendment to its tariff reflecting the approved PSA in the form of Petitioner's Exhibit SEA-3.
3. This Order shall be effective on and after the date of its approval.

HARDY, GOLC, LANDIS, SERVER, AND ZIEGNER CONCUR:

APPROVED: MAR 12 2008

**I hereby certify that the above is a true
and correct copy of the Order as approved.**



**Brenda A. Howe
Secretary to the Commission**